

Notes to the Accounts

for the year ended 31 December 2006

32. Minority interests

	2006			2005		
	Non-equity minority interests £mn	Equity minority interests £mn	Total £mn	Non-equity minority interests £mn	Equity minority interests £mn	Total £mn
At 1 January	13.3	0.3	13.6	–	11.4	11.4
Exchange translation adjustments	(1.4)	–	(1.4)	–	0.6	0.6
Additions (see note 39)	28.7	–	28.7	19.1	–	19.1
Disposals (see note 39)	(40.1)	–	(40.1)	(7.6)	–	(7.6)
Profit/(loss) retained for the year	0.7	(0.1)	0.6	1.8	0.2	2.0
Distributions made	–	–	–	–	(11.9)	(11.9)
At 31 December	1.2	0.2	1.4	13.3	0.3	13.6

Non-equity minority interests arise when funds previously classified as non-current assets held for sale are consolidated (see notes 21, 25 and 39) and where the Group holds less than 100 per cent. of the investment in those funds.

33. Reconciliation of net cash from operating activities

	2006 £mn	2005 £mn
Operating profit	255.9	213.1
Adjustments for:		
Depreciation and amortisation of software	7.5	10.9
Amortisation of fund management contracts	1.0	–
Impairment of available-for-sale assets recycled through the income statement	1.4	1.3
Other amounts recycled through the income statement in respect of investments	(24.7)	(32.3)
Increase in trade and other receivables	(241.2)	(154.2)
Increase in trade and other payables and provisions	195.1	402.1
Increase in insurance unit-linked liabilities	1,532.0	–
Net decrease in financial liabilities	(15.9)	(18.0)
Profit on disposal of business	–	(0.2)
Charge for provisions	5.8	9.4
Net gains on financial assets held at fair value through profit or loss	(30.3)	(24.2)
Share-based payments expensed	27.5	23.3
Other non-cash movements	42.7	(26.1)
Special payment made to UK pension scheme	–	(30.3)
United Kingdom corporation tax recovered/(paid)	5.1	(16.1)
Overseas tax paid	(36.2)	(34.7)
Interest received	10.6	11.8
Interest paid	(1.4)	(1.2)
Net purchase of assets backing insurance unit-linked liabilities	(1,519.1)	–
Net purchase of current financial assets	(6.6)	(242.4)
Net cash from operating activities	209.2	92.2

34. Commitments and contingent liabilities

	2006 £mn	2005 £mn
(a) Commitments		
Documentary credits	3.6	10.2
Undrawn loan facilities	100.6	99.9
Investment call commitments	55.6	12.2
Other commitments	6.6	6.6
	166.4	128.9

	2006 £mn	2005 £mn
(b) Contingent liabilities		
Assets pledged as collateral security	21.1	22.9
Guarantees and irrevocable letters of credit	38.0	15.9
Other contingent liabilities	—	0.4
	59.1	39.2

(c) Future capital expenditure

At 31 December 2006, there was £11.9 million (2005: £0.1 million) capital expenditure contracted but not provided in the accounts.

(d) Litigation

Certain Group undertakings are the subject of current or pending legal actions; the Directors believe that none of these actions, either individually or in aggregate, is likely to have a material adverse effect on the Group's financial position.

(e) (i) Operating leases – as lessee

At 31 December, the Group's commitments under non-cancellable operating leases were:

	2006		2005	
	Offices £mn	Office equipment £mn	Offices £mn	Office equipment £mn
Commitment expiring:				
Not later than one year	22.1	0.5	23.0	1.6
Later than one year and not later than five years	89.0	0.9	91.9	0.3
Later than five years	57.1	—	76.2	2.1
	168.2	1.4	191.1	4.0

Leases in respect of office properties are negotiated for an average term of 3.6 years (2005: 3.6 years) and rentals are fixed for an average of 2.7 years (2005: 1.9 years). Leases in respect of office equipment are negotiated for an average term of 2.8 years (2005: 2.5 years) and rentals are fixed for an average of 2.5 years (2005: 1.9 years).

(ii) Operating leases – as lessor

The Group sublets certain of its properties around the world. At 31 December, the future minimum lease payments under non-cancellable operating leases were:

	2006 Offices £mn	2005 Offices £mn
Commitment expiring:		
Not later than one year	2.8	3.3
Later than one year and not later than five years	6.6	9.1
Later than five years	2.2	3.2
	11.6	15.6

Subleases in respect of office properties are negotiated for an average term of 4.9 years (2005: 5.1 years) and rentals are fixed for an average of 4.9 years (2005: 4.1 years).

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for the year ended 31 December 2006

34. Commitments and contingent liabilities (continued)

(f) Other

The Group has a contractual obligation to reinstate certain leasehold premises before expiry of the lease in 2018. The Directors believe that this obligation cannot be provided for because it cannot be measured reliably.

Obligations of certain Group companies under the Euroclear settlement system are secured by charges on assets held on their behalf from time to time within that system and by cash deposits placed.

In the ordinary course of business, subsidiary undertakings have custody of customers' securities, act as trustees and issue indemnities on behalf of customers who have lost certificates of title.

The Company and subsidiary undertakings have also provided letters of comfort to regulatory authorities and others that subsidiary undertakings will be capitalised adequately and will meet their contractual obligations.

35. Awards to employees of rights to share-based payments

The Group has the following share-based payment arrangements:

Share Option Plan 2000*: Under this Plan, the Group grants market value share options over non-voting ordinary shares to executive Directors and other key employees. Options usually become exercisable if the option holder remains with the Group for at least three years and, for executive Directors, the performance target has been met. The performance target, in line with market practice, is that the Group's earnings per share growth (defined as the earnings per ordinary share before any exceptional items, as derived from the Company's Annual Report and Accounts) must be at least four per cent. per annum above the increase in the Retail Price Index over the initial three-year period.

Senior Executive Share Option Scheme 1986 and the Share Option Plan 1999*: Options over non-voting ordinary shares were granted to executive Directors and other key employees. In line with market practice at the time the Senior Executive Share Option Scheme 1986 was introduced, the vesting of these awards was not subject to performance conditions. Under the Share Option Plan 1999 the performance target of all option holders, including executive Directors, was that the Group's earnings per share growth must be at least two per cent. per annum above the increase in the Retail Price Index over a minimum five-year period. This performance condition was in line with market practice at the time of the award. The Group no longer grants awards under these former plans.

Equity Compensation Plan 2000*: Under this Plan, executive Directors and other key employees receive deferred bonus awards over ordinary and non-voting ordinary shares, normally structured as rights to acquire shares at nil cost. These awards are subject to forfeiture and will vest on the third anniversary provided the participant continues to be employed within the Group. Further details are given in the remuneration report on page 27.

All of the above share-based payment arrangements involve a maximum term of ten years for each option granted and are settled through the transfer of assets of Schroders plc to employees of the Group.

Share Incentive Plan: Under this plan approved by HM Revenue & Customs, eligible employees can purchase ordinary shares in the Group each month up to £1,500 per taxation year from their gross salary. In April 2006, the Group began to match employee share purchases up to £50 per month. These matching shares are effectively free shares awarded to the employee subject to their remaining in employment for one year.

* Certain employees have been awarded cash-settled equivalents to these share-based awards. The fair value of these awards is determined using the same methods and models used to value the equivalent equity-settled awards. The fair value of the liability is remeasured at each balance sheet date and at settlement date.

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35. Awards to employees of rights to share-based payments (continued)

(a) Share option plans

Movements in the number of options over non-voting ordinary shares outstanding and their relative weighted average exercise prices are as follows:

	2006		2005	
	Weighted average exercise price per share	Options	Weighted average exercise price per share	Options
At 1 January	715p	16,318,802	713p	21,614,092
Granted	1085p	36,866	711p	350,133
Forfeited	492p	(38,079)	624p	(1,332,086)
Exercised	668p	(4,164,782)	677p	(3,243,818)
Lapsed	805p	(1,106,414)	874p	(1,069,519)
At 31 December	726p	11,056,393	716p	16,318,802
Outstanding options immediately exercisable	714p	8,833,078	687p	7,225,455

The weighted average share price, at exercise date, of options exercised during the year was £10.78 (2005: £8.49).

At 31 December 2006 the following options to subscribe for non-voting ordinary shares, with the weighted average contractual life remaining of 4.9 years (2005: 5.9 years), were outstanding:

(i) Under the terms of the Senior Executive Share Option Scheme 1986:

Exercise period	Exercise price per share	2006 number	2005 number
18 March 2001 to 17 March 2006	441p	—	42,605

(ii) Under the terms of the Share Option Plan 1999:

Exercise periods	Exercise price per share	2006 number	2005 number
7 May 2004 to 6 May 2009	822p	133,426	743,767
13 March 2005 to 12 March 2010	800p	1,684,286	1,949,899
		1,817,712	2,693,666

(iii) Under the terms of the Share Option Plan 2000:

Exercise periods	Exercise price per share	2006 number	2005 number
13 March 2006 to 12 March 2011	987p	2,075,862	2,923,880
12 November 2006 to 11 November 2011	706p	500,000	500,000
22 April 2005 to 21 April 2012	800p	2,798,350	4,224,350
3 May 2005 to 2 May 2012	756p	50,000	50,000
6 November 2005 to 30 April 2009	453p	300,000	400,000
6 November 2005 to 5 November 2012	541p	1,427,500	2,237,500
9 December 2005 to 8 December 2012	483p	250,000	250,000
10 March 2006 to 9 March 2013	398p	1,364,500	2,446,198
2 April 2006 to 1 April 2013	472p	—	20,000
1 May 2006 to 30 April 2013	537p	—	75,000
4 June 2006 to 3 June 2013	600p	—	20,000
6 October 2006 to 5 October 2013	660p	15,000	15,000
27 October 2006 to 26 October 2013	665p	15,000	15,000
8 March 2007 to 7 March 2014	655p	165,000	165,000
7 June 2007 to 6 June 2014	547p	15,000	15,000
17 August 2007 to 16 August 2014	530p	75,470	75,470
7 March 2008 to 6 March 2015	709p	137,833	137,833
15 July 2008 to 14 July 2015	736p	7,000	7,000
18 August 2008 to 17 August 2015	802p	5,300	5,300
6 March 2009 to 5 March 2016	1085p	36,866	—
		9,238,681	13,582,531